



National Community Tax Coalition

a project of the Center for Economic Progress

August 16, 2011

The Honorable Charles Boustany
Chairman
U.S. House Ways & Means
Subcommittee on Oversight
U.S. House of Representatives
1102 Longworth House Office Building
Washington, DC 20515

The Honorable John Lewis
Ranking Member
U.S. House Ways & Means
Subcommittee on Oversight
U.S. House of Representatives
1139E Longworth House Office Building
Washington, DC 20515

Dear Chairman Boustany & Ranking Member Lewis:

As the nation's leading coalition of non-profit, voluntary entities providing free tax preparation assistance and services to low-income individuals and families, we would like to thank you for your leadership in recently holding a Congressional hearing on July 28th on the new IRS paid tax return preparer program. Please find attached formal written comments from the National Community Tax Coalition (NCTC) for the Committee's review. Additionally, we wish to express our gratitude to the Committee for inviting David Rothstein, who serves on NCTC's Steering Committee and is the co-chair of NCTC's Public Policy & Research Working Group.

The nation's volunteer income tax assistance (VITA) programs provide critical tax preparation and other asset development services to America's low-income taxpayers in underserved populations and result in continued cost-savings to the federal government every year. VITA sites offer free tax assistance to low- to moderate-income taxpayers who cannot afford professional assistance and who want to learn about financial education, opportunities to save, and to access other essential services and supports offered in their communities. More than 52,000 VITA volunteers prepare basic tax returns for low-income taxpayers with a focus on at least one specific underserved group, including persons with disabilities, non-English speaking persons, Native Americans, rural taxpayers, and the elderly. During tax year 2010, VITA centers prepared 1.3 million tax returns across 5,700 sites and brought back approximately \$1.9 billion in tax refunds to taxpayers whose average Adjusted Gross Income (AGI) was \$21,000.

In conclusion, we are appreciative of the Committee's continued interest in the quality of tax preparation services and the importance of improving tax compliance. We look forward to continuing to work with the Committee to ensure expanded access of taxpayers to affordable, accurate, and high-quality tax preparation and assistance programs.

Sincerely,

A handwritten signature in black ink that reads "Jackie Lynn Coleman".

Jackie Lynn Coleman
Senior Director
National Community Tax Coalition
29 E. Madison Street, Suite 900
Chicago, Illinois 60602
Phone: (312) 630-0261, Fax: (312) 252-0285
jcoleman@tax-coalition.org
www.tax-coalition.org



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Written Comments on Tax Preparation & Paid Preparer Regulation

Submitted by the National Community Tax Coalition to the

U.S. House Ways & Means Subcommittee on Oversight

11 August 2011

The **Volunteer Income Tax Assistance (VITA)** initiative is an IRS program designed to help low and moderate-income taxpayers complete their annual tax returns at no cost. Since its inception in the 1970s, VITA programs have evolved and flourished. Every year, beginning in December and continuing until mid-January, certified student volunteers receive training from the IRS to help prepare basic tax returns in communities across the country. VITA sites are generally located at community and neighborhood centers, libraries, schools, shopping malls, and other convenient locations. Clients are not charged fees for this service. VITA sites generally assist people who have income below \$49,000 or are eligible for refundable tax credits designed to promote work, access to higher education, and family support.

VITA programs already undergo stringent training requirements and regulations. First, VITA services are provided free of charge to all low- and moderate income tax payers who meet the income eligibility requirements to receive such services. Second, regardless of credentials or educational backgrounds, all volunteers must undergo rigorous testing and training each and every year. Additionally, more tests and training is required for more complex return processes. The system is heavily monitored through the use of EFIN numbers by the Internal Revenue Service.

VITA programs are highly committed to increasing the use of electronic tax filing, strengthening quality control, enhancing training of volunteers, and significantly improving the accuracy rate of returns prepared. We were extremely grateful to Congress for initiating the Community VITA Matching Grant Assistance program in FY 2008 to assist VITA sites in meeting these goals and also in expanding outreach services to targeted underserved and high-risk populations (including taxpayers living in rural areas, taxpayers with disabilities, taxpayers with English as a Second Language, Native American taxpayers, and the elderly).

NCTC's Concerns regarding the Implementation of the IRS Paid Preparer Certification Process

NCTC commends the IRS for undertaking the arduous effort of regulating, educating, and tracking paid tax preparers. This process is critical for both the tax preparation sector and the millions of clients who use their services. NCTC does, however, wish to share concerns with the Committee about the implementation of the registration process and interpretation of guidelines related to this initiative. Mainly, our concerns are related to the infusion of enforcement measures for dealing with



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non-compliant paid preparers, as well as the administering of outreach/education/awareness efforts to ensure that consumers will come to understand these new changes.

One concern relates to paid tax preparers as they register with the IRS. The estimate from the IRS indicates that more than 100,000 paid preparers have yet to register. At the same time, this last year has shown us how a number of “fly-by-night” paid tax preparation set-up for a few weeks, charge high fees, and do subpar and error riddled returns. At its worst, the preparers are totally disingenuous, focusing on elderly or low-income filers, selling them services about transferring funds, recovery rebates, and exaggerated EITC and Social Security claims. A recent wave of claims from companies that they are the IRS or “associates” of some fashion.¹ Attorneys General are filing lawsuits on behalf of consumers and the IRS is issuing warnings about being imitated. But the damage has been done and flies in the face of this new registration program.

The consumer community is concerned about enforcement, not just after these fraudulent returns are prepared but stopping them before they occur. These scams and any method of undercutting the registration process, have ripple effects onto taxpayers. They will be less likely to file taxes, seek help, or work with the IRS once they have been victims of a scam. In short, it is imperative that we have a deliberative plan to move the non-compliant paid preparers into the regulation process.

A second issue of concern for NCTC deals with who is covered by the regulations. To be clear, we strongly believe that the litmus test for who should be registered and in continuing education is the person that the taxpayer believes is their tax preparer. The guidance from the IRS on this is helpful, but we are concerned about how it will be enforced and monitored. Clients who visit free tax sites and work with Legal Aid commonly report that the bulk of their return is done by a clerk, often on a computer, and then the return is signed by a paid preparer at the end who barely looks at the return. Again, the non-signor guidance is helpful, but we implore this litmus test of “who the client thinks is doing their taxes,” to be used as a benchmark. Straying far from this benchmark will render the testing and continuing education for registered tax preparers ineffective. Additionally, we think it is vital that the test for certification be no less stringent than SEA individual 1040 section of the exam. The stronger the test, the better the quality of returns.

A third issue surrounds promotion and outreach of this new program. The majority of low- and moderate-income families are unaware of the new registration requirement. They do not understand what these credentials mean and how this program matters to them. Thus, a large concern is that the price of paid tax preparation will increase based on this process but with no real explanation for consumers. This is also a consideration for having fewer “layers” of testing to ensure a firm understanding by the public of what it means to be registered and compliant. Consumers need to know which preparer can do what services for them and what the credentials mean.

¹ <http://milwaukeecourieronline.com/index.php/2011/07/23/irs-scam-hits-milwaukee-initiates-national-warning-from-agency/>
& http://www.cleveland.com/consumeraffairs/index.ssf/2011/07/irs_state_investigate_tax_prep.html



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Finally, a fourth issue of concern is transparency around process and cost. Over the last decade, the price of paid tax preparation has steadily increased. Taxpayers should have the ability to research and compare prices for services. Most of the time, this isn't provided to them until the return is completely prepared. Under this new program, we would suggest some type of disclosure and transparency, which provides a baseline of fees and costs associated with preparing the return. The fees do not have to be universal but something is needed for comparison purposes and to understand the fee structure upon completion. Additionally, there needs to be a central 800 phone number and database for complaints. This is critical not just enforcement but for consumers looking to research preparers and credentials. Similar to researching a housing contractor or auto repair facility using the Better Business Bureau, a taxpayer should be able to research their tax preparer for type of registration, education, accreditations, and performance.

The VITA Framework: A Model for Quality and Transparency

As the new paid preparer regulation program unfolds, several promising practices of the VITA program may help inform the program.

- **Strong Compliance among Underserved Taxpayer Populations** – VITA programs are committed to reaching out and educating underserved taxpayer populations to ensure increased compliance among low-income and moderate-income taxpayers in the timely and accurate filing of annual tax returns.
- **Significant decrease in administrative burden and costs associated with operating the federal tax return process.** VITA services also result in decreased administrative burden on the IRS as well as significant cost-savings related to the implementation of the annual tax return process. For example, the IRS strongly encourages the electronic submission of annual federal tax returns because electronic filing results in a tremendous savings of \$3.10/return over paper submissions. Unfortunately, only 69% of all taxpayers submit their tax returns electronically, though 92% of returns prepared by VITA sites are electronically completed. **Thus, VITA's primary use of electronic submission saves the IRS approximately \$4 million in administrative costs every year.**
- **Ensuring Accurate Completion of Tax Returns:** Independent evaluations of VITA have consistently reported a higher accuracy rate on average in terms of successfully completed tax returns than any other subcategory of available tax preparations services. In a recent evaluation conducted by the Internal Revenue Service confirmed that during 2011, the accuracy rate for preparing individual 2010 tax returns rose two percentage points from last year to 87%.² Accuracy is determined by correctly computing the tax liability.

² Internal Revenue Service. Fact Sheet: Increased Accuracy Rate for VITA/TCE. Summer 2011.



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- **Furthering the Best Interests of Taxpayers through Access and Affordability:** VITA programs provide a free, safe alternative to the commercial tax preparation chains as well as to untrained and unlicensed tax preparers who often target low-income filers during tax time. During the 2010 tax year filing season, VITA programs saved taxpayers claiming the Earned Income Tax Credit an estimated average \$80 million in paid preparer fees. This is money that went back into the hands of workers and local economies. VITA sites often serve as a critical portal to assisting low-income taxpayers from underserved communities with other asset development and financial education services in addition to tax preparation.
- **Preservation of High Quality Standards:** In order to maintain consistently high-quality standards across the field, VITA volunteers undergo extensive training and testing annually prior to serving taxpayers. Additionally, NCTC provides technical assistance on innovative strategies and disseminates information on the most promising practices in the tax preparation sector to VITA sites across the country to ensure the highest quality standards are being implemented nationwide.

As the Committee continues to monitor the unfolding of the IRS certification program for paid tax preparation organizations, NCTC and its network of 2,100 members are available to provide additional information and serve as a resource for educating the Committee on real-time experiential data witnessed by VITA sites and the clients they serve.